

MILITARY DEPARTMENT
OFFICE OF THE ADJUTANT GENERAL
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Sacramento, California 95826-9101



CAJS-J1-SP

29 January 2009

MEMORANDUM FOR All California Military Department State Civil Service (SCS) Employees and State Active Duty (SAD) Service Members

SUBJECT: State Personnel Policy Memorandum **2009-03**
Military Leave "Differential Pay" Internal Revenue Service (IRS) Tax Changes for 2009 tax year.

REFERENCE: SCO Payroll Letter 08-018, dated 30 December 2008

1. In 2008, changes were made for military leave payments, "Differential Pay" per Government Code section 19775.18, issued by the State Controllers Office (SCO). Specifically, Internal Revenue Service Revenue Ruling 69-13 states that all military leave payments issued in 2008 were not subject to Federal, State, Social Security, Medicare and State Disability Insurance (SDI) taxes.
2. On June 17, 2008, H.R. 6081, the *Hero's Earnings Assistance and Relief Act of 2008 (HEART Act)* was signed by the President. The act became Public Law No: 110-245 which amended IRS Ruling 69-13. The amendment indicates that such military leave payments are now considered wages. As such, these payments will now be subject to Federal, State, Social Security, Medicare, and SDI effective with the 2009 tax year
3. For the tax year 2008, voluntary pre-tax deductions such as 401(k), 457, 403(b), and retirement buy-back deductions were automatically not withheld from military leave payments by the SCO. If you choose to resume these deductions on or after January 1, 2009, you must complete a new Military Worksheet. Employees currently on military leave do not need to submit a new work sheet unless they wish to change their voluntary deduction elections.
4. In 2008, pre-tax benefit deductions (i.e. health, dental, and vision care) were withheld as after tax benefit deductions. Effective **1 January 2009**, the SCO will change these deductions to pre-tax benefit deduction codes.
5. For further information or assistance, please contact Sergeant Major Shannon Baptiste at the California Military Department State Personnel Office at 916-854-3310 or DSN 466-3310.

FOR THE DIRECTOR, JOINT STAFF:

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